

AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Connecticut Children's Medical Center and Subsidiaries Years Ended September 30, 2012 and 2011 With Report of Independent Auditors

Ernst & Young LLP



Audited Consolidated Financial Statements and Supplementary Information

Years Ended September 30, 2012 and 2011

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Ernst & Young LLP Goodwin Square 225 Asylum Street Hartford, CT 06103-1506

Tel: +1 860 247 3100 Fax: +1 860 725 6040 www.ey.com

Report of Independent Auditors

Board of Directors Connecticut Children's Medical Center

We have audited the accompanying consolidated balance sheets of Connecticut Children's Medical Center and Subsidiaries (the Medical Center) as of September 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of The Children's Fund of Connecticut, Inc., a wholly owned subsidiary, whose statements reflect total assets of \$33,897,082 and \$29,130,818 as of September 30, 2012 and 2011, respectively, and total revenues of \$5,293,523 and \$5,004,631, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for The Children's Fund of Connecticut, Inc., is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Medical Center's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Connecticut Children's Medical Center and Subsidiaries at September 30, 2012 and 2011, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the accompanying consolidated financial statements, in 2012 the Medical Center changed its method of reporting estimated insurance claims receivable and estimated insurance claims liabilities with the adoption of Accounting Standards Update No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*.



Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating details appearing in conjunction with the consolidated financial statements are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, based on our audits and the report of other auditors, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

January 28, 2013

Consolidated Balance Sheets

	September 30						
	2012	2011					
Assets							
Current assets:							
Cash and cash equivalents	\$ 2,360,811	\$ 4,688,831					
Funds held by trustee under revenue bond agreement	10,408,581	1,710,681					
Patient accounts receivable, less allowance of							
approximately \$7,409,000 in 2012 and \$6,644,000 in							
2011	32,905,777	26,304,731					
Due from affiliated entities	6,701,228	2,268,115					
Due from third parties	4,899,895	_					
Inventories	692,725	600,832					
Other current assets	13,490,330	7,174,720					
Total current assets	71,459,347	42,747,910					
Assets whose use is limited:							
Investments	31,294,271	27,352,655					
Funds held in trust by others	75,705,081	67,820,517					
Interest in Foundation	87,705,125	75,658,862					
	194,704,477	170,832,034					
Property, plant and equipment:							
Buildings	121,350,082	114,990,645					
Furniture and equipment	65,196,820	59,579,096					
Construction in progress	19,750,929	10,912,602					
	206,297,831	185,482,343					
Less accumulated depreciation	(95,636,445)						
	110,661,386	99,490,254					
Other assets:		604 606					
Bond issuance costs	730,892	681,696					
Ground lease	2,416,682	2,445,974					
Other	31,026,009	23,897,319					
	34,173,583	27,024,989					
Total assets	\$ 410,998,793	\$ 340,095,187					

	September 30					
		2012		2011		
Liabilities and net assets						
Current liabilities:						
Current portion of bonds payable	\$	1,215,000	\$	1,050,000		
Current portion of notes payable		3,902,944		2,164,028		
Accounts payable and accrued expenses		32,604,814		26,934,488		
Accrued wages		16,325,155		12,195,131		
Due to third parties		4,526,428		2,465,943		
Due to affiliated entities		743,431		3,086,844		
Accrued interest payable and other current liabilities		330,715		478,089		
Total current liabilities		59,648,487		48,374,523		
Bonds payable, less current portion		39,315,000		40,530,000		
Notes payable, less current portion		16,714,138		1,959,918		
Accrued pension liability		19,026,898		18,776,699		
Other long term liabilities		39,247,671		21,040,979		
Total liabilities		173,952,194		130,682,119		
Net assets:						
Unrestricted		122,786,203		104,023,361		
Temporarily restricted		21,920,459		21,240,609		
Permanently restricted		92,339,937		84,149,098		
Total net assets		237,046,599		209,413,068		
Total liabilities and net assets	\$	410,998,793	\$	340,095,187		

See accompanying notes.

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended 2012	September 30 2011
Revenues:		
Net patient service revenue	\$ 277,604,755	\$ 244,512,368
Provision for bad debts	(5,875,039)	(2,365,830)
Net patient service revenue less provision for bad debts	271,729,716	242,146,538
Other revenues	14,738,860	11,416,875
Net assets released from restrictions for operations	14,383,803	14,188,497
•	300,852,379	267,751,910
Expenses:		
Salaries	151,816,547	133,935,648
Benefits	36,552,982	34,659,527
Supplies and other	117,229,088	89,535,493
Bad debts (non-patient)	_	101,818
Depreciation and amortization	11,094,179	11,000,584
Interest	940,592	1,231,424
Loss on extinguishment of debt	_	2,576,263
	317,633,388	273,040,757
Loss from operations	(16,781,009)	(5,288,847)
Other income:		
Gain from investments, net	16,634,729	6,288,744
Income from trusts held by others	2,826,208	2,624,198
Change in equity interest in net assets of the Foundation	1,922,646	2,798,727
Other	(84,403)	(2,323)
	21,299,180	11,709,346
Excess of revenues over expenses	4,518,171	6,420,499

Continued on next page.

Consolidated Statements of Operations and Changes in Net Assets (continued)

		Year Ended 2012	otember 30 2011	
Unrestricted net assets:				_
Excess of revenues over expenses	\$	4,518,171	\$	6,420,499
Unrealized gain (loss) on investments		3,687,051		(2,562,749)
Net assets released from restrictions for capital		3,078,733		1,064,801
Change in funded status of pension and				
post-retirement plans		(1,377,255)		(4,399,884)
Transfer to temporarily restricted net assets		_		(250,000)
Change in equity interest in the net assets				
of the Foundation		8,856,142		(3,108,995)
Increase (decrease) in unrestricted net assets		18,762,842		(2,836,328)
Temporarily restricted net assets:				
Transfer from affiliated organization		4,251,318		5,728,363
Net assets released from restrictions for operations		(14,383,803)		(14,055,113)
Net assets released from restrictions for capital		(3,078,733)		(1,064,801)
Bequests, gifts and grants		12,929,868		11,443,373
Transfer from unrestricted net assets		_		250,000
Change in equity interest in the net assets of the Foundation		961,200		(50,578)
Increase in temporarily restricted net assets		679,850		2,251,244
Permanently restricted net assets:				
Change in funds held in trust by others		7,884,564		(2,200,911)
Assets released from restrictions by trustees		_		(133,384)
Change in equity interest in the net assets of the Foundation		306,275		461,274
Increase (decrease) in permanently restricted net assets		8,190,839		(1,873,021)
Increase (decrease) in net assets		27,633,531		(2,458,105)
Net assets at beginning of year		209,413,068		211,871,173
Net assets at end of year	_	237,046,599	\$	209,413,068
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See accompanying notes.

Consolidated Statements of Cash Flows

		Year Ended Sep 2012	2011
Operating activities		0= (22 = 24	(2.450.105)
Change in net assets	\$	27,633,531 \$	(2,458,105)
Adjustments to reconcile change in net assets to net cash			
provided by (used in) operating activities and other income:			
Noncash items:		- 0 020	2.467.640
Provision for bad debt		5,875,039	2,467,648
Provision for depreciation and amortization		11,094,179	11,000,584
Unrealized loss (gain) on investments		(3,687,051)	2,562,749
Unrealized loss (gain) on funds held by others		(7,884,564)	2,334,295
Change in funded status of pension and post-retirement plans		1,377,255	4,399,884
Change in interest in Foundation		(12,046,263)	(100,428)
Other changes in net assets:			
Restricted contributions and investment income		(12,929,868)	(11,443,373)
Transfer from affiliated organizations, net		(4,251,318)	(5,728,363)
Changes in operating assets and liabilities:			
Patient accounts receivable		(12,476,085)	(7,570,698)
Due from affiliated entities, net		(6,776,526)	3,524,191
Due from third parties		(4,899,895)	_
Inventories		(91,893)	17,580
Other current assets		(6,315,610)	(1,027,849)
Investment in CHS Insurance Limited		(16,352,899)	(6,653,659)
Other long term assets		(17,094,214)	(5,179)
Accounts payable and accrued expenses		5,670,326	(311,444)
Accrued wages		4,130,024	265,281
Accrued interest payable and other current liabilities		(147,374)	(390,293)
Due to third parties		2,060,485	811,484
Pension liability		(1,127,056)	(1,288,105)
Other long term liabilities		18,206,692	649,606
Net cash used in operating activities and other income		(30,033,085)	(8,944,194)
Investing activities			
Purchases of property, plant and equipment, net		(21,663,292)	(16,602,075)
Distribution from CHS Insurance Limited		25,696,500	_
(Increase) decrease in funds held by trustee under revenue bond agreement		(8,697,900)	8,713,417
Increase in investments		(254,565)	(740,389)
Net cash used in investing activities		(4,919,257)	(8,629,047)
Financing activities			
Restricted contributions and investment income		12,929,868	11,443,373
Transfer from affiliates		4,251,318	5,728,363
Principal payments on bonds and notes payable		(4,556,864)	(41,251,348)
New debt issued		20,000,000	41,580,000
Net cash provided by financing activities		32,624,322	17,500,388
Decrease in cash and cash equivalents		(2,328,020)	(72,853)
Cash and cash equivalents at beginning of year		4,688,831	4,761,684
Cash and cash equivalents at end of year	\$	2,360,811 \$	4,688,831
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See accompanying notes.

Notes to Consolidated Financial Statements

September 30, 2012

1. Organization and Accounting Policies

The Connecticut Children's Medical Center (the Medical Center) is a wholly-owned, tax-exempt subsidiary of CCMC Corporation. The Board of the Medical Center, appointed by CCMC Corporation, controls the operations of the Medical Center.

The Medical Center is the sole member of Connecticut Children's Specialty Group, Inc. (CCSG) and The Children's Fund of Connecticut, Inc. (the Children's Fund). CCSG was formed to provide and promote children's health care and to support the Medical Center. The Children's Fund was formed to further the charitable mission of the Medical Center and to improve pediatric care in the Hartford Region. All material intercompany accounts and transactions have been eliminated in the accompanying financial statements.

Regulatory Matters

The Medical Center is required to file annual operating information with the State of Connecticut Office of Health Care Access (OHCA).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, such as estimated uncollectibles for patient accounts receivable, and liabilities, such as medical malpractice insurance liabilities and pension and postretirement liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash, money market funds and certificates of deposit. Restricted cash has been restricted by the donor to a specific time frame or purpose.

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

Investments

Investments, including funds held by trustee under revenue bond agreements, are measured at fair value at the balance sheet dates (see Note 16). Investment income (including realized gains and losses on investments, interest and dividends) is included in other income unless the income or loss is restricted by donor or law. The cost of securities sold is based on the specific identification method. Unrealized gains and losses on investments are excluded from excess of revenues over expenses unless the loss is considered to be other than temporary. Other than temporary losses are included in other income which is a component of excess of revenues over expenses. Based on recently improving market conditions as well as the Medical Center's ability and intent to hold impaired assets to recovery, no other than temporary losses were recorded.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market value.

Funds Held in Trust by Others

The Medical Center has an irrevocable right to receive income earned on certain trust assets established for its benefit. Distributions received by the Medical Center are unrestricted and included in income from trusts held by others in the statement of operations and changes in net assets. The Medical Center's interest in the fair value of the trust assets is included in assets whose use is limited. Changes in the market value of beneficial trust assets are reported as increases or decreases to permanently restricted net assets.

Interest in Foundation

The Interest in Foundation represents the Medical Center's interest in the net assets of Connecticut Children's Medical Center Foundation, Inc. (the Foundation). This investment is accounted for in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-20, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. In 2012 and 2011, the Medical Center did not require and did not receive any unrestricted financial support from the Foundation. The Foundation will provide support in future fiscal years as necessary.

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

Bond Issuance Costs

Bond issuance costs incurred to obtain financing for construction and renovation programs are being amortized using the straight-line method. The difference between the straight-line method and the effective-interest method is immaterial.

Property, Plant and Equipment

Property, plant and equipment are recorded on the basis of cost. The Medical Center provides for depreciation of property, plant and equipment using the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives.

Pension Plan

The Medical Center has a noncontributory pension plan in effect covering all eligible employees. The Medical Center's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974.

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Interest Rate Swap Agreements

The Medical Center utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. The Medical Center is exposed to credit loss in the event of non-performance by the counterparties to its interest rate swap agreements. The Medical Center is

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

also exposed to the risk that the swap receipts may not offset its variable rate debt service. To the extent these variable interest swap receipts do not equal variable interest payments on the bonds, there will be a net loss or net benefit to the Medical Center.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those where use by the Medical Center has been limited by donors to a specific time frame or purpose. Temporarily restricted net assets consist primarily of contributions restricted for certain health care and children's services. Permanently restricted net assets, which are primarily assets held in trusts by others and endowment gifts, have been restricted by donors and are to be maintained in perpetuity.

Medical Malpractice Insurance

Coverage for medical malpractice insurance is provided on a claims-made basis. The primary level of coverage is \$10,000,000 per claim and \$39,000,000 in the aggregate. The excess indemnity coverage is layered with four different insurance companies at \$15,000,000 per claim and \$60,000,000 in the aggregate. There are no deductibles. A portion of the primary coverage is reinsured by the carrier with CHS Insurance Limited (CHS), a captive insurance company in which the Medical Center has a 26% ownership interest. The investment in CHS is reported using the equity method of accounting and is included in other assets in the consolidated balance sheets. See Note 17 for changes to the Medical Center's medical malpractice insurance coverage effective October 1, 2012.

Excess of Revenues over Expenses

The statement of operations includes excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments, permanent transfers of assets to and from affiliates, net assets released from restrictions for capital expenditures, change in the equity interest in the net assets of the Foundation and changes in the funded status of the pension and postretirement plans.

Other Income

Activities, other than in connection with providing health care services, are considered to be nonoperating and are included in other income. Other income consists primarily of income on invested funds, unrestricted gifts and bequests, realized gains and losses on sales of securities and income from funds held in trust by others.

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

Advertising

The Medical Center's policy is to expense advertising costs as incurred. Total advertising expense was \$1,058,681 and \$846,392 for the years ended September 30, 2012 and 2011, respectively.

Income Taxes

The Medical Center and its subsidiaries are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

The Medical Center has net operating loss carryforwards from unrelated business activities of approximately \$586,000 which begin expiring on September 30, 2029. These net operating loss carryforwards result in a potential deferred tax asset of approximately \$234,400 which is offset by a valuation allowance of the same amount.

Subsequent Events

The Medical Center evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date. For the year ended September 30, 2012, the Medical Center evaluated subsequent events through January 28, 2013, which is the date the financial statements were issued. No events occurred that require disclosure or adjustment to the consolidated financial statements except for those in Note 17.

Change in Accounting Principle

In August 2010, the FASB issued Accounting Standards Update No. (ASU) 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. Under ASU 2010-24, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities should be presented separately on the balance sheet and not presented on a net basis. ASU 2010-24 became effective for the Medical Center as of October 1, 2011. The adoption of the new guidance resulted in an increase to other current assets and accounts payable and accrued expenses of \$5.0 million and an increase in other assets and other long term liabilities of approximately \$16.7 million as of September 30, 2012, in the accompanying consolidated balance sheets (see Note 12). The adoption did not affect the Medical Center's financial condition, net results of operations or cash flows.

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

Recently Issued Accounting Standards

In August 2010, the FASB issued ASC 954-605, *Measuring Charity Care for Disclosure*. ASC 954-605 requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. ASC 954-605 also requires separate disclosure of the amount of any cash reimbursements received for providing charity care. ASC 954-605 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010, with retrospective application required. The new disclosure requirements became effective for the Medical Center on October 1, 2011, and are included in the accompanying consolidated financial statements for all periods presented (see Note 2).

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* ASU 2011-04 amended ASC 820, *Fair Value Measurement*, to converge the fair value measurement guidance in US GAAP and International Financial Reporting Standards. Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition, ASU 2011-04 requires additional fair value disclosures. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. The Medical Center is currently evaluating the effect that the provisions of ASU 2011-04 will have on its financial statements.

Reclassification

Certain 2011 amounts have been reclassified to conform with the 2012 presentation. The change in the investment in CHS has been reclassified on the accompanying statements of cash flows from investing activities to operating activities.

2. Net Revenues from Services to Patients and Charity Care

The Medical Center provides health care services primarily to residents of the region. Revenues from the Medicaid program accounted for approximately 40% of the Medical Center's net patient service revenues for both years ended September 30, 2012 and 2011. Laws and regulations governing the Medicaid programs are complex and subject to interpretation. The Medical Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicaid program. Changes

Notes to Consolidated Financial Statements (continued)

2. Net Revenues from Services to Patients and Charity Care (continued)

in the Medicaid program and the reduction of funding levels could have an adverse impact on the Medical Center.

On January 1, 2012, the State of Connecticut shifted its Medicaid Managed Care population to true Medicaid through an Administrative Services Organization model (ASO). The ASO is responsible for enrolling participants, reviewing claims and approving payments under the Medicaid program. The Medical Center, as a result of this change, lost beneficial rate agreements that were in place with the Managed Care organizations. In connection with this change, the State of Connecticut agreed to provide a supplementary payment to the Medical Center to alleviate the change in payment rates. Accordingly, the Medical Center has recorded a due from third parties of approximately \$4.8 million in relation to this change for both the Medical Center and CCSG.

The following table summarizes net revenues from services to patients:

	Year Ended September 30							
	2012	2011						
Total gross revenues from patients	\$ 600,972,991	\$ 522,099,003						
Less total contractual allowances	317,878,153	268,953,872						
Less charity care	753,946	1,661,814						
Less administrative and other allowances	4,736,137	6,970,949						
Total allowances	323,368,236	277,586,635						
Net patient service revenue	277,604,755	244,512,368						
Less provision for bad debts	5,875,039	2,365,830						
Net patient service revenue less provision for bad debts	\$ 271,729,716	\$ 242,146,538						

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from certain payors are different from established billing rates of the Medical Center, and the difference is accounted for as allowances. The Medical Center records its provision for bad debts based upon a review of all of its outstanding receivables. Write-offs of receivable balances are related to its population of underinsured patients. An underinsured patient is one who has commercial insurance which leaves a significant portion of the Medical Center's reimbursement to be paid by the patient, either through large deductibles or co-pay requirements. Self-pay patients are rare in the pediatric environment, as Medicaid is readily available to children. Self-pay net revenue approximated \$4,380,000 in the fiscal year.

Notes to Consolidated Financial Statements (continued)

2. Net Revenues from Services to Patients and Charity Care (continued)

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. Provisions for estimated third-party payor settlements and adjustments are estimated in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Medical Center has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the Medical Center receives per diem and fee-for-service payments for certain covered services based upon discounted fee schedules.

The Medical Center accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to the established policies of the Medical Center. Essentially, those policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Medical Center utilizes the generally recognized poverty income levels for the state of Connecticut, but also includes certain cases where incurred charges are significant when compared to incomes.

The costs of charity care incurred were approximately \$346,815 and \$847,525 for the years ended September 30, 2012 and 2011, respectively. The costs of charity care are derived from both estimated and actual data. The estimated cost of charity care includes the direct and indirect cost of providing such services and is estimated utilizing the Medical Center's ratio of cost to gross charges, which is then multiplied by the gross uncompensated charges associated with providing care to charity patients.

3. Related Party Transactions

Certain Medical Center employees render management and other services to affiliated entities for which the Medical Center is reimbursed. The amount of such reimbursement was \$216,624 and \$211,500 for the years ended September 30, 2012 and 2011, respectively.

Notes to Consolidated Financial Statements (continued)

4. Contributions Receivable

Contributions receivable are expected to be realized in the following periods:

	Septembe	September 30						
	2012	2011						
Contributions receivable in one year or less Contributions receivable in one to five years Less discount	\$ 1,419,295 \$ 53,120	813,732 263,000						
Net contributions receivable	\$ 1,472,415 \$	1,076,732						

The discount recognizes the estimated uncollectible portion of the contributions receivable and the discount of contributions receivable to net present value.

5. Concentrations of Credit Risk

The Medical Center's financial instruments that are exposed to concentrations of credit risk primarily consist of cash and cash equivalents, short-term investments and patient accounts receivable.

The Medical Center's cash and cash equivalents are placed with high credit quality financial institutions. The Medical Center's investment policy limits its exposure to concentrations of credit risk. In the normal course of business, the Medical Center maintains cash balances in excess of the Federal Deposit Insurance Corporation's (FDIC) insurance limit. Cash balances exceeded FDIC limits by approximately \$2.4 million and \$5.1 million at September 30, 2012 and 2011, respectively.

Notes to Consolidated Financial Statements (continued)

5. Concentrations of Credit Risk (continued)

The Medical Center provides health care services and grants credit without collateral to its patients, most of whom are Connecticut residents and are insured under third-party payor agreements. An estimated allowance for doubtful accounts as well as contractual allowances is maintained at levels considered adequate to reduce the account balances to net realizable value. The mix of receivables from patients and third-party payors at September 30, 2012 and 2011, was as follows:

	2012	2011
Medicaid	33%	6%
Medicaid Managed Care	1	39
Commercial/Managed Care – Contracted	51	44
Commercial/Managed – Non-Contracted	2	2
Patients and other	13	9
	100%	100%

6. Investments

The composition of investments, stated at fair value, is set forth in the following table:

	September 30										
		20)12			20	11				
		Cost Fair Value				Cost		Fair Value			
Short-term investments	\$	34,452	\$	34,452	\$	25,253	\$	25,253			
Marketable equity securities		284,111		384,452		294,259		324,694			
Fixed income securities		107,447		116,625		159,948		169,908			
Institutional managed		15 211 225		10.534.060		17,000,170		16 217 045			
equity funds		17,311,237		19,524,960		16,988,160		16,217,845			
Institutional managed bond											
fund		10,212,527		11,129,725		10,009,517		10,244,003			
Other		87,167		104,057		305,237		370,952			
	\$	28,036,941	\$	31,294,271	\$	27,782,374	\$	27,352,655			

Investments consisted of mutual funds and individual securities that comprised approximately 64% equity securities and 36% fixed income investments at September 30, 2012, and 62% equity securities and 38% fixed income investments at September 30, 2011.

Notes to Consolidated Financial Statements (continued)

6. Investments (continued)

The following table summarizes the unrealized losses on investments held at September 30, 2012:

]	Less Than	12	Months	12 Months	Longer	Total			
	Fair Value		U	nrealized Loss	Fair Value	Į	Inrealized Loss	Fair Value		Inrealized Loss
Marketable equity securities Institutional managed	\$	-	\$	-	\$ 65,231	\$	17,599	\$ 65,231	\$	17,599
equity funds		666,803		64,193	3,019,499		1,026,043	3,686,302		1,090,236
Mutual funds		_		_	42,971		324	42,971		324
Other		19,185		409	_		_	19,185		409
Total investments	\$	685,988	\$	64,602	\$ 3,127,701	\$	1,043,966	\$ 3,813,689	\$	1,108,568

The following table summarizes the unrealized losses on investments held at September 30, 2011:

	 Less Than	12	Months	12 Months or Longer					Total					
	Fair	Į	Unrealized		Fair Unrealized		Unrealized Fair		Unrealized Fair		ved Fair		Unrealized	
	 Value		Loss		Value		Loss		Value		Loss			
Marketable equity securities Institutional managed	\$ 70,208	\$	22,244	\$	18,278	\$	10,552	\$	88,486	\$	32,796			
equity funds	4,031,378		1,046,818		1,119,911		274,328		5,151,289		1,321,146			
Mutual funds	104,009		3,216		38,124		5,171		142,133		8,387			
Fixed income securities	 12,568		374		_		_		12,568		374			
Total investments	\$ 4,218,163	\$	1,072,652	\$	1,176,313	\$	290,051	\$	5,394,476	\$	1,362,703			

Management continually reviews its investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors and the length of time and extent to which the market value has been less than cost along with the Medical Center's intent and ability to hold the investments. During the years ended September 30, 2012 and 2011, the Medical Center has not recorded any other-than-temporary declines in the fair value of investments, as the Corporation has the ability and intent to hold the securities to recovery.

Notes to Consolidated Financial Statements (continued)

6. Investments (continued)

Investment returns for the years ended September 30, 2012 and 2011, are as follows:

	2012	2011
Interest and dividend income Realized gain	\$ 873,650 996,406	\$ 1,307,896 762,177
Gain on interest in CHS	16,352,899	6,653,659
Net swap activity	(1,455,047)	(2,196,842)
Investment fees and other	(133,179)	(238,146)
	\$16,634,729	\$ 6,288,744

7. Restricted Net Assets

Endowments

The endowment consists of approximately seven individual donor-restricted funds established for a variety of purposes which are held and controlled by the Foundation. As required by GAAP, net assets associated with endowment funds are classified and reported based on donor-imposed restrictions. At September 30, 2012 and 2011, the Medical Center had approximately \$18,169,769 and \$17,602,539, respectively, in endowments held at the Foundation which are recorded by the Medical Center through its interest in the Foundation.

Notes to Consolidated Financial Statements (continued)

7. Restricted Net Assets (continued)

Interpretation of Relevant Law

The Medical Center's Board and senior management have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Medical Center classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard for expenditure prescribed by UPMIFA. In accordance with UPMIFA, the Medical Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of the organization and the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the organization.
- (7) The investment policies of the organization.

Notes to Consolidated Financial Statements (continued)

7. Restricted Net Assets (continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Medical Center to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. Deficiencies at September 30, 2012 and 2011, were immaterial.

Return Objectives and Risk Parameters

The Medical Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that equal or exceed relevant benchmarks. The Medical Center expects its endowment funds, over time, to provide an average rate of return of at least 5% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Medical Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Medical Center targets a diversified asset allocation strategy that places a greater emphasis on equity-based investments to achieve its long-term return objectives within the guidelines of its investment policy and prudent risk constraints.

Endowment Net Asset Composition by Type of Fund

All endowment net assets are donor-restricted endowment funds.

Notes to Consolidated Financial Statements (continued)

7. Restricted Net Assets (continued)

Changes in endowment net assets for the fiscal years ended September 30, 2012 and 2011, consisted of the following:

	September 30, 2012				
		Permanently			
	Restricted	Restricted	Total		
Endowment net assets, beginning balance Contributions	\$ 1,273,958 _	\$ 16,328,581 306,275	\$ 17,602,539 306,275		
Investment return	474,812	_	474,812		
Net appreciation (realized and unrealized)	157,910	_	157,910		
Appropriation of endowment assets	,		,		
for expenditure	(371,767)	_	(371,767)		
Endowment net assets, ending balance	\$ 1,534,913	\$ 16,634,856	\$ 18,169,769		
	S	eptember 30, 2	011		
		eptember 30, 2 Permanently	011		
			011 Total		
Endowment net assets, beginning balance	Temporarily	Permanently Restricted \$ 15,867,307	Total \$ 16,552,294		
Contributions	Temporarily Restricted \$ 684,987	Permanently Restricted	Total \$ 16,552,294 461,274		
Contributions Investment return	Temporarily Restricted \$ 684,987 - 442,531	Permanently Restricted \$ 15,867,307	Total \$ 16,552,294 461,274 442,531		
Contributions Investment return Net appreciation (realized and unrealized)	Temporarily Restricted \$ 684,987	Permanently Restricted \$ 15,867,307	Total \$ 16,552,294 461,274		
Contributions Investment return	Temporarily Restricted \$ 684,987 - 442,531	Permanently Restricted \$ 15,867,307 461,274	Total \$ 16,552,294 461,274 442,531		

Income from endowment funds is considered temporarily restricted until it meets the original donor's time or purpose restriction of the donation. These funds are commingled with other temporarily restricted contributions for the same purposes (see tables below for discussion of the purpose of restrictions) and invested until such time that the funds are utilized. The Medical Center's spending policy is that any expenditure associated with the endowment is appropriated based on the donor's intention.

Notes to Consolidated Financial Statements (continued)

7. Restricted Net Assets (continued)

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes as of September 30, 2012 and 2011:

	2012	2011
Equipment purchases	2%	2%
Education	7	7
Other health care services	91	91
	100%	100%

Permanently Restricted

Permanently restricted net assets at September 30, 2012 and 2011, are restricted to:

		2011
Health care and children's services	82%	81%
Other health care services	13	14
Education	5	5
	100%	100%

8. Pension Plan

Effective January 1, 1993, the State of Connecticut mandated that individuals hired by the Medical Center were no longer eligible to participate in the State of Connecticut pension plan (State Plan). Employees who were participants in the State Plan as of December 31, 1992, can remain participants in the State Plan so long as they continue to remain employed by the Medical Center.

Effective January 1, 1994, the Medical Center adopted a defined benefit pension plan covering substantially all of its employees. Benefits for employees who are participants in the State Plan are reduced to reflect vested benefits provided under the State Plan.

Notes to Consolidated Financial Statements (continued)

8. Pension Plan (continued)

Effective January 1, 1999, the Medical Center converted its pension plan to a Cash Balance Retirement Plan (the Plan). Plan benefits are based on years of service and the employee's compensation. Contributions to the Plan are intended to provide for benefits attributed to services rendered to date and benefits expected to be earned in the future. Future benefits are earned and credited by participants based on a percentage of compensation (ranging from 2.5% to 12.5%) associated with years of service. Plan participants earn a return based on an interest rate established annually at the beginning of the pay year. Plan participants vest in their benefits after three years of service.

On February 26, 2009, the Board of Directors of the Medical Center adopted a resolution to freeze the Plan effective May 1, 2009.

Included in unrestricted net assets at September 30, 2012 and 2011, are unrecognized actuarial losses of \$26,595,053 and \$25,964,020, respectively. The actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2012, is \$2,307,651.

The following table presents a reconciliation of the beginning and ending balances of the Plan's projected benefit obligation and the fair value of plan assets, as well as the funded status of the plan and accrued pension liability included in the consolidated balance sheets:

	Year Ended September 30			
	2012 2011			
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 75,131,688	3 \$ 72,044,652		
Interest cost	3,260,049	9 3,318,337		
Actuarial loss, including the effects of any				
assumption changes	7,941,850	6 2,064,570		
Benefits paid	(1,344,41)	1) (2,295,871)		
Benefit obligation at end of year	\$ 84,989,182	2 \$ 75,131,688		

Notes to Consolidated Financial Statements (continued)

8. Pension Plan (continued)

	Year Ended September 30			
	2012 2011			
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 56,354,989 \$ 56,379,732			
Contributions	1,480,000 1,516,000			
Actual return on plan assets	9,471,706 755,128			
Benefits paid	(1,344,411) (2,295,871)			
Fair value of plan assets at end of year	\$ 65,962,284 \$ 56,354,989			
Funded status of the plan	\$ (19,026,898) \$ (18,776,699)			

The weighted-average assumptions used to develop the projected benefit obligation as of September 30 are as follows:

	2012	2011
Measurement date	September 30, 2012	September 30, 2011
Discount rate	3.60%	4.60%
Rate of compensation	N/A	N/A
Cash balance interest credit	5.50	5.50
Return on plan assets	6.75	6.75

Net periodic pension costs for the years ended September 30 consist of the following:

	2012	2011
Interest cost Expected return on plan assets	\$ 3,260,049 (3,816,105)	\$ 3,318,337 (3,858,278)
Net amortization: Net actuarial loss Net periodic benefit costs	1,655,222	1,169,554
Net periodic benefit costs	\$ 1,099,166	\$ 629,613

Notes to Consolidated Financial Statements (continued)

8. Pension Plan (continued)

The weighted-average assumptions used to determine net periodic benefit costs at September 30 are as follows:

	2012	2011
Discount rate	4.60%	4.85%
Cash balance interest credit	5.50	5.50
Expected long-term rate of return on plan assets	6.75	6.75
Rate of compensation	N/A	N/A

The expected long-term rate of return on plan assets was developed through analysis of historical market returns, current market conditions and the fund's past experience. Estimates of future market returns by asset category are lower than actual long-term historical returns in order to reflect current market conditions.

The accumulated benefit obligation at September 30, 2012 and 2011, was \$84,989,182 and \$75,131,688, respectively.

Plan Assets

The Plan assets are managed by outside investment managers. The investment strategy with respect to pension assets is to maximize return while protecting principal. The investment manager has the flexibility to adjust the asset allocation and move funds to the asset class that offers the most opportunity. The investment objective for Plan assets over a full market cycle time period is to generate a return in excess of the passive portfolio benchmark for each asset class.

Connecticut Children's Medical Center and Subsidiaries Notes to Consolidated Financial Statements (continued)

8. Pension Plan (continued)

The asset allocations for the Plan at September 30, by asset category, are as follows:

	Percentage of Plan Assets at Year-End			
Asset Category	2012	2011		
Domestic equities	34%	32%		
International equities	16	16		
Debt securities	48	51		
Other	2	1		
Total	100%	100%		

The fair values of the Plan assets at September 30, 2012, by asset category, are as follows:

	 Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 116,120	\$ _	\$ - \$	116,120
Money market mutual funds (a)	414,910	_	_	414,910
Fixed income securities				
U.S. government bonds (b)	1,896,913	_	_	1,896,913
Municipal bonds (c)	629,216	_	_	629,216
Corporate bonds (d)	5,193,637	_	_	5,193,637
Foreign bonds (e)	501,138	_	_	501,138
Fixed income mutual funds (f)	45,444	16,417,177	_	16,462,621
Equity mutual funds (g)	30,620,071	_	_	30,620,071
Multi-asset balanced	, ,			
mutual funds ^(h)	 5,164,985	4,962,673		10,127,658
Total	\$ 44,582,434	\$ 21,379,850	\$ - \$	65,962,284

Notes to Consolidated Financial Statements (continued)

8. Pension Plan (continued)

The fair values of the Plan assets at September 30, 2011, by asset category, are as follows:

	 Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 66,231	\$ _	\$ - \$	66,231
Money market mutual funds ^(a)	144,284	_	_	144,284
Fixed income securities				
U.S. government bonds (b)	836,213	_	_	836,213
Municipal bonds (c)	578,747	_	_	578,747
Corporate bonds (d)	5,595,661	_	_	5,595,661
Foreign bonds (e)	374,895	_	_	374,895
Fixed income mutual funds (f)	44,457	15,254,335	_	15,298,792
Equity mutual funds (g)	24,725,060	_	_	24,725,060
Multi-asset balanced				
mutual funds ^(h)	4,442,062	4,293,044	_	8,735,106
Total	\$ 36,807,610	\$ 19,547,379	\$ - \$	56,354,989

- (a) Includes investments in mutual funds that invest primarily in short-term debt securities including U.S. Treasury bills, commercial paper and certificates of deposits.
- (b) Includes investments in publicly traded U.S. government and U.S. Agency bonds.
- (c) Includes investments in publicly traded municipal bonds offered by U.S. states and cities.
- (d) Includes investments in publicly offered and traded domestic corporate bonds, including both unsecured and asset-backed securities.
- (e) Includes investments in publicly offered and traded unsecured foreign corporate bonds.
- (f) Investment in a fixed income mutual fund that maintains a diverse portfolio of short-term high quality bonds, actively managed across the mortgage-backed security, U.S. Treasury, corporate and international fixed income sectors.
- (g) Includes investments in domestic and international equity mutual funds and exchange traded funds.
- (h) Investments in mutual funds that allocate assets among both fixed and equity investments, as well as other forms of investments with the intent of providing returns while diversifying assets and spreading risk over multiple asset classes.

The Medical Center expects to contribute \$550,000 to its pension plan in fiscal 2013.

Notes to Consolidated Financial Statements (continued)

8. Pension Plan (continued)

The Medical Center expects to pay the following benefit payments, which reflect expected future service as appropriate:

	Pension
	Benefits
Fiscal year:	
2013	\$ 9,683,948
2014	13,291,536
2015	3,327,725
2016	2,988,152
2017	3,792,919
Years 2018 – 2022	21,362,046

9. Postretirement Benefit Plan

The Medical Center sponsors the Connecticut Children's Medical Center Postretirement Welfare Plan (the PRW Plan), an unfunded plan which provides postretirement medical benefits to retired employees who meet the specific criteria identified in the PRW Plan document. Historically, the Medical Center shared the coverage obligation for transferred employees with Hartford Hospital. At the end of 2012, this arrangement was reevaluated, and both parties agreed to end the co-obligation for transferred employees. Each organization would take responsibility for those employees it hired as a transfer from the other party. This resulted in the Medical Center recording an additional liability of \$772,000 for all transferred employees which Hartford Hospital reimbursed them for as part of the agreement. The Medical Center's contribution toward cost of medical coverage varies by years of pension credited service at retirement, ranging from 25% for employees with ten years of credited service to 100% for those employees with 25 plus years of credited service. The Medical Center's maximum fixed dollar commitment is \$2,280 per year per retiree.

Included in unrestricted net assets at September 30, 2012 and 2011, respectively, are \$237,872 and \$984,094 of net unrecognized actuarial gains that have not yet been recognized in net periodic benefit cost. There is no actuarial gain included in unrestricted net assets that is expected to be recognized in net periodic pension cost during the year ending September 30, 2013.

Notes to Consolidated Financial Statements (continued)

9. Postretirement Benefit Plan (continued)

The following table presents a reconciliation of the beginning and ending balances of the PRW Plans' projected benefit obligation and the fair value of plan assets, as well as the funded status of the plan and accrued postretirement obligation included in the consolidated balance sheets:

	Year Ended September 30		
	2012 2011		
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 5,752,625 \$ 4,923,050		
Service cost	316,704 279,616		
Interest cost	295,826 269,407		
Actuarial loss including the effects of any assumption			
changes	703,041 308,486		
Benefits paid	748,045 (27,934)		
Benefit obligation at end of year	\$ 7,816,241 \$ 5,752,625		
	Year Ended September 30 2012 2011		
Change in plan assets			
Fair value of plan assets at beginning of year	\$ -		
Contributions	(748,045) 27,934		
Benefits paid	748,045 (27,934)		
Fair value of plan assets at end of year	\$ - \$ -		
Accrued postretirement obligation included in other long-term liabilities	\$ (7,816,241) \$ (5,752,625)		

Benefits paid is net of the additional liability of \$772,000 recorded based on the change in obligation for employees transferring from Hartford Hospital discussed above.

Notes to Consolidated Financial Statements (continued)

9. Postretirement Benefit Plan (continued)

The weighted-average assumptions used to develop the postretirement benefit obligation as of September 30 are as follows:

	2012	2011
Measurement date Discount rate	September 30 3.85%	September 30 4.90%
Healthcare cost trend rate:	3.0 3 / 0	4.7070
Current year	8.00	8.50
Ultimate	5.00	5.00
Number of years to reach ultimate	6	7

Net periodic benefits costs for the years September 30, consist of the following:

		2012	2011
Service cost Interest cost	\$	316,704 \$ 295,826	279,616 269,407
Net amortization: Net actuarial gain Net periodic benefit cost	<u></u>	(43,181) 569,349 \$	(93,232) 455,791
The periodic content tool	Ψ	σον,σιν φ	,,,,,

The weighted-average assumptions used to determine net periodic benefit costs are as follows for September 30:

	2012	2011
Discount rate	4.90%	5.20%
Health care cost trend rate		
Initial rate	8.50	9.00
Ultimate rate	5.00	5.00
Years to ultimate	7	8

Notes to Consolidated Financial Statements (continued)

9. Postretirement Benefit Plan (continued)

A one percentage point change in assumed health care cost trend rates would have the following effect on the postretirement benefit plan:

	One-perc	entage Point
	Increase	Decrease
Effect on postretirement benefit obligation Effect on total of service and interest cost	\$ 318,652 34,026	\$ (279,350) (29,727)

The Medical Center expects to contribute \$199,533 to its postretirement benefit plan in fiscal 2013.

The Medical Center expects to pay the following benefit payments, which reflect expected future service as appropriate:

	Postretirement Benefits
Fiscal year:	
2013	\$ 199,533
2014	215,360
2015	251,781
2016	288,716
2017	321,991
Years 2018 – 2022	2,422,466

10. Bonds Payable

A summary of long-term debt is as follows (in thousands):

		September 30				
		2012		2011		
Hospital revenue bonds financed with the State of Connecticut Health and Educational Facilities Authority (CHEFA)						
Series D (4.19% effective interest rate)	\$	40,530	\$	41,580		
		40,530		41,580		
Less current portion		1,215		(1,050)		
	\$	39,315	\$	40,530		
	_					

Notes to Consolidated Financial Statements (continued)

10. Bonds Payable (continued)

In June 2011, the Medical Center along with the Foundation (the Obligated Group) refinanced their existing State of Connecticut Health and Educational Facilities Authority (CHEFA) hospital revenue bonds with variable rate revenue bonds (the Series D Bonds) with a principal amount of \$41,580,000. The Series D Bonds were issued at par and directly placed with one investor. The investor has committed to holding the bonds for a ten year period, at the end of which, the investor may put the bonds back to the Obligated Group or extend their holding period at their discretion. The bonds mature in varying amounts through 2032, with interest rates based on 65% of LIBOR plus a spread of 1.52%, ranging from 1.66% to 1.71% in the current year.

The agreement and related documents provide, among other things, that the Series D Bonds and any additional bonds will be payable from payments to be made by the Obligated Group and that it will be obligated to make such payments so long as the Series D Bonds and any additional bonds are outstanding. The Series D Bonds are collateralized by an interest in revenues of the Medical Center and a mortgage on the facilities, ground lease, easements and other certain leases that comprise the overall hospital premises owned by the Medical Center.

Pursuant to the mortgage agreement and related documents, the Obligated Group is required to meet certain covenants including a days cash on hand, debt to capitalization and a debt service coverage ratio requirement. At September 30, 2012 and 2011, the Medical Center was in compliance with the covenants.

The Medical Center is required to make monthly interest and semi-annual principal repayments for the Series D Bonds. The next principal payment for the Series D bonds is due on January 1, 2013. Interest paid for 2012 and 2011 was \$694,150 and \$642,885, respectively.

Principal payments for the next five years under the CHEFA obligations are as follows:

Years Ended September 30:	
2013	\$ 1,215,000
2014	1,280,000
2015	1,350,000
2016	1,415,000
2017	1,500,000
Aggregate thereafter	33,770,000
	\$ 40,530,000

Notes to Consolidated Financial Statements (continued)

10. Bonds Payable (continued)

In November 2005, the Medical Center entered into an interest rate swap agreement (the 2005 swap) effectively converting \$23,700,000 of its existing variable-rate debt (Series C debt) to a fixed-rate basis of 3.704% through June 2018. The fair value of the swap (a liability of \$1,968,851 and \$2,271,626 at September 30, 2012 and 2011, respectively) is reported in other long term liabilities. The increase in value of \$302,775 and \$450,369 is reported as a component of income from investments for the years ended September 30, 2012 and 2011, respectively. The swap, while serving as an economic hedge, does not qualify for hedge accounting.

Upon the refunding of the Series C debt in June 2011, the Medical Center applied the 2005 swap against the newly issued Series D debt and entered into a new swap agreement (the 2011 swap), which along with the existing swap, effectively converts all of its outstanding Series D debt to a fixed-rate basis. The interest rate on the new swap is 4.6138%. The fair value of the 2011 swap (a liability of \$2,107,558 and \$1,641,066 as of September 30, 2012 and 2011, respectively) is reported in other long term liabilities. The decline in value of \$466,492 and \$1,641,066 is reported as a component of income from investments for the year ended September 30, 2012 and 2011, respectively. The swap, while serving as an economic hedge, does not qualify for hedge accounting.

The 2011 swap has an embedded option that gives the Medical Center the right to terminate the swap beginning July 1, 2016, and on the first business day of each month thereafter. If the option is exercised by the Medical Center, the transaction will terminate and neither party will owe a termination payment amount. There is no exercise premium.

The following table summarizes the Medical Center's interest rate swap agreements (in thousands):

	Expiration	Medical Center	Medical Center	- 10 0-0-0		- 10 1-0 - 1-0 1-0 1-0 1-0 1-0 1-0 1-0 1		
Swap Type	Swap Type Date Receives Pays	Pays		2012		2011		
Series C – Fixed to Floating (2005 Swap) Series D – Fixed to Floating	July 1, 2018 July 1, 2032	70% of LIBOR 65% LIBOR +	3.704%	\$	18,550	\$	21,325	
(2011 Swap)	3 /	1.52%	4.6138%		20,827		18,929	
			_	\$	39,377	\$	40,254	

Notes to Consolidated Financial Statements (continued)

10. Bonds Payable (continued)

The total notional amount differs from the amount outstanding on the debt as a result of the different amounts that the Medical Center receives. The notional amount of the 2011 swap is modified to adjust for the differing percentage of LIBOR received under the 2005 swap.

11. Notes Payable

Notes payable at September 30, 2012 and 2011, consists of the following:

	2012	2011
Notes payable to a healthcare financing company payable in monthly installments of \$28,846 through October 2011,	s –	\$ 28,708
at 5.77% interest. Secured by certain equipment. Notes payable to a healthcare equipment manufacturing company in monthly installments of \$18,392 through December 2015,	5 –	\$ 28,708
at 4.15% interest. Secured by certain equipment. Notes payable to a bank in bi-annual installments of \$947,956 through October 2012 at 4.09% interest. Secured by	668,809	858,094
certain equipment. Notes payable to a bank in monthly installments of \$147,233	929,067	2,732,006
through October 2018 at 2.85% interest. Secured by certain equipment.	9,857,166	_
Notes payable to a bank in monthly installments of \$114,385 through September 2019 at 2.52% interest. Secured by certain equipment.	8,800,000	_
Note payable to landlord for leasehold improvements payable in monthly installments of \$1,431 through August 2019 at 6%.		
Unsecured.	97,003	107,992
Note payable to a hospital association payable in monthly		
installments of \$6,529, interest free.	248,102	326,450
Other notes	16,935	70,696
	20,617,082	4,123,946
Less current portion	3,902,944	2,164,028
	\$ 16,714,138	\$ 1,959,918

The carrying value of the notes payable approximates fair value.

Interest paid on the notes was \$390,009 and \$494,759 for the years ended September 30, 2012 and 2011, respectively.

Notes to Consolidated Financial Statements (continued)

11. Notes Payable (continued)

Principal payments on the notes for the next five years are as follows:

2013	\$ 3,902,944
2014	3,039,162
2015	3,123,791
2016	2,973,756
2017	2,989,374
Aggregate thereafter	4,588,055_
	\$ 20,617,082

12. Contingencies

There have been malpractice claims that fall within the Medical Center's malpractice insurance which have been asserted against the Medical Center. In addition, there are known incidents that have occurred through September 30, 2012, that may result in the assertion of claims. Refer to Note 1.

The Medical Center is a party to various lawsuits incidental to its business. Management does not believe that the lawsuits will have a material adverse effect on the Medical Center's financial position.

The Medical Center and CCSG, in consultation with their actuaries, record as a liability the estimate for claims-made malpractice liabilities and the estimate for incurred but not reported claims. The estimate for incurred but not reported claims, discounted at 2.49%, totaled \$6,031,000 and \$5,726,000 at September 30, 2012 and 2011, respectively. The Medical Center has recorded related insurance recoveries receivable of approximately \$21,724,242 at September 30, 2012, in consideration for the expected insurance recoveries for the total claims-made insurance.

The Medical Center, in consultation with its actuary, records as a liability an estimate of workers' compensation claims. Such liability, discounted at 2.16%, totaled \$2,239,000 and \$1,927,000 at September 30, 2012 and 2011, respectively.

Notes to Consolidated Financial Statements (continued)

13. Commitments

Ground Lease

The Medical Center has a ground lease with Hartford Hospital to lease the site on which the Medical Center stands. The lease term is 99 years beginning November 1, 1993 with an optional extension for an additional 99-year term.

The Ground Lease was recorded as a prepaid asset in the original amount of \$2,900,000 and is amortized over the term of the lease. The net asset is recorded at \$2,416,682 and \$2,445,974 as of September 30, 2012 and 2011, respectively. The lease includes certain covenants which restrict, among other things, the Medical Center's ability to be a party to mergers.

Parking Agreement

The Medical Center has a Parking Agreement with Hartford Hospital Real Estate Corporation (HHREC) for the use of 450 parking spaces on the Hartford Hospital campus. The agreement continues in full force and effect until the earlier of a written termination of the agreement by the Medical Center and HHREC or the termination of the ground lease.

14. Operating Leases

Rental and lease expense amounted to \$9,870,230 and \$6,764,420 for the years ended September 30, 2012 and 2011, respectively.

The minimum lease commitments under all noncancelable operating leases with initial or remaining terms of more than one year are as follows:

Fiscal years ending September 30:	
2013	\$ 8,671,255
2014	9,036,450
2015	9,057,573
2016	8,151,369
2017	7,991,571
	\$ 42,908,218

Notes to Consolidated Financial Statements (continued)

15. Functional Expenses

The Medical Center provides health care services to residents within its geographic location including pediatric care and outpatient surgery. Expenses related to providing these services are as follows:

	Year Ended September 30				
	2012	2011			
Health care services General and administrative	\$ 261,157,525 56,475,863	\$ 229,380,066 43,660,691			
	\$ 317,633,388	\$ 273,040,757			

16. Fair Value of Financial Instruments

The Medical Center calculates fair value of its financial assets and liabilities, when applicable, based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on a unit of account from the Medial Center's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated). In order to increase consistency and comparability in fair value measurements, the Medical Center utilizes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described as follows:

Level 1 – Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 – Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3 – Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Medical Center utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Medical Center also considers counterparty credit risk in its assessment of fair value.

Notes to Consolidated Financial Statements (continued)

16. Fair Value of Financial Instruments (continued)

Financial assets and liabilities carried at fair value as of September 30, 2012, are classified in the table below in one of the three categories described above:

		Level 1	Level 2	Level 3		Total
Assets						
Cash and cash equivalents	\$	2,360,811	\$ _	\$ -	- \$	2,360,811
Fixed income securities (a)		116,625	_	-	-	116,625
Domestic fixed		16,843,653	_	-	-	16,843,653
International fixed		1,113,280	_	_	-	1,113,280
Marketable equity securities (b)		384,452	_	-	-	384,452
Domestic equity		14,206,651	_	-	-	14,206,651
International equity		1,618,266	_	-	-	1,618,266
Mutual Funds:						
Domestic		10,219,849	_	-		10,219,849
International		5,207,625	_	-	-	5,207,625
Multi-Strategy		1,090,899	_	-	-	1,090,899
Equity:		, ,				, ,
Domestic growth (c)		9,124,355	_	_	-	9,124,355
Domestic value (c)		1,261,127	_	-	-	1,261,127
International (c)		5,907,757	_	_	-	5,907,757
Real estate, small cap and other (c)		150,008	_	_		150,008
International equity common trust		,				,
fund		_	2,897,088	-	-	2,897,088
Domestic equity common trust fund		_	8,566,520	_	-	8,566,520
Fixed income:						
International		681,054	_	_	-	681,054
Domestic		5,589,697	_	_	-	5,589,697
Intermediate term (c)		8,184,672	_	-	-	8,184,672
Global ^(c)		166,339	_	_	-	166,339
Short-term (c)		1,583,873	_	-	-	1,583,873
Inflation protected (c)		1,229,293	_	-	-	1,229,293
Common Trust Fund (d)		, , <u> </u>	3,185,770	-	-	3,185,770
Domestic fixed Common Trust Fund		_	4,484,440	_	-	4,484,440
Funds held by trustee under revenue			, ,			, ,
bond agreement (e)		10,408,581	_	-		10,408,581
Fund of funds		_	1,182,225	_	-	1,182,225
Real estate investments		_	127,362	-	-	127,362
Foundation held funds and miscellaneous			ŕ			ŕ
other investments (f)		_	1,876,472	-	-	1,876,472
Total	\$	97,448,867	\$ 22,319,877	\$ -	- \$	119,768,744
Liabilities						
Interest rate swap agreement (g)	\$	_	\$ 4,173,109	\$ -	- \$	4,173,109
1 0	÷		 , , ,			

Notes to Consolidated Financial Statements (continued)

16. Fair Value of Financial Instruments (continued)

Financial assets and liabilities carried at fair value as of September 30, 2011, are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 4,688,831	\$ - \$	- \$	4,688,831
Fixed income securities (a)	169,908	_	_	169,908
Domestic fixed	19,084,559	_	_	19,084,559
International fixed	1,462,167	_	_	1,462,167
Marketable equity securities (b)	324,694	_	_	324,694
Domestic equity	19,105,519	_	_	19,105,519
International equity	1,614,551	_	_	1,614,551
Mutual Funds:	, ,	_	_	, ,
Domestic	3,615,485	_	_	3,615,485
International	3,087,088	_	_	3,087,088
Equity:	, ,			, ,
Domestic growth (c)	7,335,771	_	_	7,335,771
Domestic value (c)	865,907	15,618	_	881,525
International (c)	5,183,233	, <u> </u>	_	5,183,233
Real estate, small cap and other (c)	400,553	_	_	400,553
International equity common trust	,			,
fund	_	2,368,313	_	2,368,313
Domestic equity common trust fund	_	6,982,032	_	6,982,032
Fixed income:				
International	378,251	_	_	378,251
Domestic	2,033,785	_	_	2,033,785
Intermediate term (c)	7,581,663	_	_	7,581,663
Global (c)	1,451,760	_	_	1,451,760
Short-term	25,253			25,253
Inflation protected (c)	1,273,810	_	_	1,273,810
Common Trust Fund (d)	_	2,724,485	_	2,724,485
Domestic fixed Common Trust Fund	_	4,831,926	_	4,831,926
Funds held by trustee under revenue				
bond agreement (e)	1,710,681	_	_	1,710,681
Fund of funds	611,586	_	_	611,586
Real estate investments	427,246	_	_	427,246
Foundation held funds and miscellaneous				
other investments ^(f)	 _	2,218,009	_	2,218,009
Total	\$ 82,432,301	\$ 19,140,383 \$	- \$	101,572,684
Liabilities				
Interest rate swap agreement (g)	\$ 	\$ 3,912,692 \$	- \$	3,912,692

Notes to Consolidated Financial Statements (continued)

16. Fair Value of Financial Instruments (continued)

- (a) Includes investments in publicly traded fixed income invests, which may include government, municipal or corporate bonds of varied duration.
- (b) Includes investments in publicly traded stock of domestic corporations.
- (c) Includes investments in domestic and international equity mutual funds and exchange traded funds. Investments are broken out into the underlying funds' asset type and investment goals.
- (d) The common trust fund seeks to gain exposure to large cap U.S. companies by replicating the S&P 500 Tobacco Free Index, which excludes any company for which tobacco is one of its top five revenue producing industries. There are no liquidity restrictions as the redemption frequency and notice period is daily.
- (e) These funds reflect proceeds from borrowings that are held in trust for the Medical Center's use. Funds are generally invested in money market mutual funds and may be drawn on by the Medical Center to purchase capital assets.
- (f) These funds reflect the value of the Medical Center's interest in funds held in trust for the Medical Center's benefit. The Medical Center receives statements and records its portion of the trusts' statement value.
- (g) The value of the Medical Center's swaps is determined by examining the present value of the future cash flows among other factors. The Medical Center utilizes an independent third party to calculate the value of the swaps based on all of the relevant factors.

The following is a description of the Medical Center's valuation methodologies for assets measured at fair value. The fair value methodologies are not necessarily indicators of liquidity but are descriptive of the measures used to arrive at fair value pricing. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers and brokers. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Medical Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The amounts reported in the tables above exclude assets invested in the Medical Center's defined benefit pension plan (Note 8).

Notes to Consolidated Financial Statements (continued)

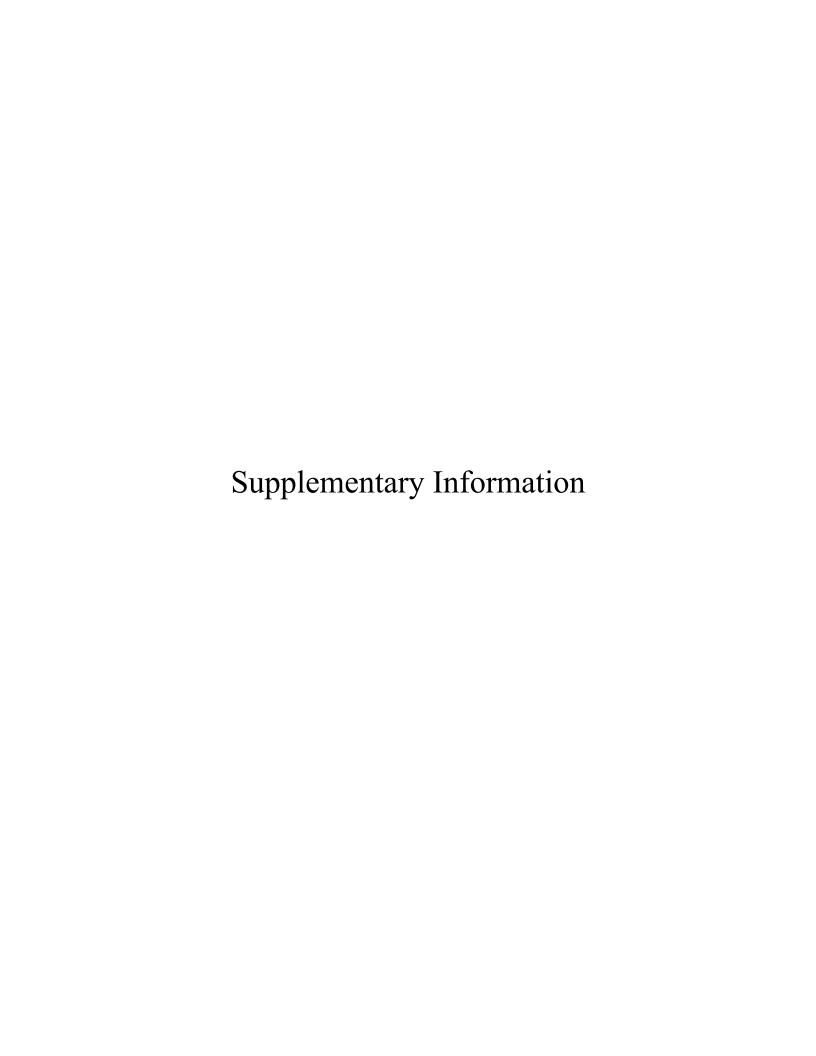
17. Subsequent Events

The Medical Center evaluated subsequent events through January 28, 2013, which is the date the financial statements were issued.

Effective October 1, 2012, the Medical Center's ownership interest in CHS was transferred to Hartford Health Care Corporation (HHCC) as a result of HHCC becoming the sole owner of CHS. As a result of the transaction, the Medical Center reevaluated its malpractice coverage and has enacted a new program. CHS will continue to be the primary insurer for malpractice claims.

Under the new program, the primary level of coverage is \$4,000,000 per claim and \$12,000,000 in the aggregate. There is an additional \$6,000,000 of professional liability purchased through an external insurance company which was utilized to reduce the primary layer with CHS to the \$4,000,000/\$12,000,000 levels. In addition, there are four layers of excess indemnity coverage with four different insurance companies at \$10,000,000 per claim on the first three layers and \$15,000,000 on the fourth layer, totaling \$45,000,000 in the aggregate. The reduction in overall coverage is deemed acceptable, as this coverage is solely for the Medical Center's claim activity. Historically, all of the claim activity of CHS, which includes several other hospitals, was covered by the primary and excess layers. There are no deductibles. Additionally, the Medical Center purchased a loss capping policy to limit the exposure to existing claims as of September 30, 2012. Under this policy, any existing claim that settles for greater than the amount reserved by CHS for this claim is covered and paid by the insurance company, limiting the Medical Center's liability for increases in claims up to \$10,000,000 per claim and \$20,000,000 in the aggregate. Should claims settle for greater than the amount already reserved and the \$20,000,000 loss capping policy, the Medical Center is fully liable for the excess.

No other events occurred that require disclosure or adjustment to the consolidated financial statements, except as noted above.



Consolidating Balance Sheets

		77.00 . 0		Connecticut			
	Connecticut Children's	Effect of Adoption of		Children's Specialty	Children's		Total
	Medical Center		Total	Group	Fund	Eliminations	Consolidated
Assets				•			
Current assets:							
Cash and cash equivalents	\$ 482,737	\$ -	\$ 482,737	\$ 47,161	\$ 1,830,913	\$ -	\$ 2,360,811
Funds held by trustee under revenue bond agreement	10,408,581	_	10,408,581	_	_	_	10,408,581
Patient accounts receivable, less allowance of approximately \$6,149,000 for							
the Medical Center and \$1,260,000 for Specialty Group	29,412,780	_	29,412,780	3,492,997	_	_	32,905,777
Due from affiliated entities	6,701,228	_	6,701,228	61,449	_	(61,449)	6,701,228
Inventories	655,745	_	655,745	36,980	_	_	692,725
Due from third parties	4,899,895	_	4,899,895	_	_	_	4,899,895
Other current assets	8,432,268	_	8,432,268	3,392,685	1,665,377	_	13,490,330
Total current assets	60,993,234	-	60,993,234	7,031,272	3,496,290	(61,449)	71,459,347
Assets whose use is limited:							
Investments	_	_	_	951,162	30,343,109	_	31,294,271
Funds held in trust by others	75,705,081	_	75,705,081	_	_	_	75,705,081
Interest in Foundation	_	87,705,125	87,705,125	_	_	_	87,705,125
	75,705,081	87,705,125	163,410,206	951,162	30,343,109	-	194,704,477
Property, plant and equipment:							
Buildings	118,462,156	_	118,462,156	2,887,926	_	_	121,350,082
Furniture and equipment	63,710,820	_	63,710,820	1,339,739	146,261	_	65,196,820
Construction in progress	19,750,929	_	19,750,929		_	_	19,750,929
	201,923,905	_	201,923,905	4,227,665	146,261	_	206,297,831
Less accumulated depreciation	(93,582,827)	_	(93,582,827)	(1,959,547)	(94,071)	_	(95,636,445)
	108,341,078	_	108,341,078	2,268,118	52,190	_	110,661,386
Other assets:							
Bond issuance costs	730,892	_	730,892	_	_	_	730,892
Ground lease	2,416,682	_	2,416,682	_	_	_	2,416,682
Other	24,335,538	_	24,335,538	6,684,978	5,493	_	31,026,009
	27,483,112	_	27,483,112	6,684,978	5,493	_	34,173,583
Total assets	\$ 272,522,505	\$ 87,705,125	\$ 360,227,630	\$ 16,935,530	\$ 33,897,082	\$ (61,449)	\$ 410,998,793

Consolidating Balance Sheets (continued)

	Connecticut Children's Medical	Effect of Adoption of ASC 958-20	Total	Connecticut Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated
Liabilities and net assets							
Current liabilities:							
Current portion of bonds payable	\$ 1,215,000	\$ -	\$ 1,215,000	\$ -	\$ -	\$ -	\$ 1,215,000
Current portion of notes payable	3,874,342	_	3,874,342	28,602	_	_	3,902,944
Accounts payable and accrued expenses	26,273,345	_	26,273,345	5,366,793	964,676	_	32,604,814
Accrued wages	11,564,942	_	11,564,942	4,760,213	_	_	16,325,155
Due to third parties	2,965,182	_	2,965,182	1,561,246	_	_	4,526,428
Due to affiliated entities	61,449	_	61,449	743,431	_	(61,449)	743,431
Accrued interest payable and other current liabilities	66,507	_	66,507	264,208	_	_	330,715
Total current liabilities	46,020,767	-	46,020,767	12,724,493	964,676	(61,449)	59,648,487
Bonds payable, less current portion	39,315,000	_	39,315,000	-	_	-	39,315,000
Notes payable, less current portion	16,628,802	_	16,628,802	85,336	-	-	16,714,138
Accrued pension liability	19,026,898	_	19,026,898	_	_	_	19,026,898
Other long term liabilities	29,898,238	-	29,898,238	9,349,433	_	_	39,247,671
Total liabilities	150,889,705	-	150,889,705	22,159,262	964,676	(61,449)	173,952,194
Net assets:							
Unrestricted	31,388,657	65,295,933	96,684,590	(5,223,732)	31,325,345	_	122,786,203
Temporarily restricted	14,539,062	5,774,336	20,313,398	_	1,607,061	_	21,920,459
Permanently restricted	75,705,081	16,634,856	92,339,937	_	_	_	92,339,937
Total net assets	121,632,800	87,705,125	209,337,925	(5,223,732)	32,932,406	_	237,046,599
Total net assets and liabilities	\$ 272,522,505	\$ 87,705,125	\$ 360,227,630	\$ 16,935,530	\$ 33,897,082	\$ (61,449)	\$ 410,998,793

Consolidating Balance Sheets

	Connecticut	Effect of		Connecticut Children's			
	Children's	Adoption of		Specialty	Children's		Total
	Medical Center	ASC 958-20	Total	Group	Fund	Eliminations	Consolidated
Assets							
Current assets:							
Cash and cash equivalents	\$ 3,472,044	\$ -	\$ 3,472,044	\$ -	\$ 1,216,787	\$ -	\$ 4,688,831
Funds held by trustee under revenue bond agreement	1,710,681	_	1,710,681	_	_	_	1,710,681
Patient accounts receivable, less allowance of approximately \$5,753,000 for							
the Medical Center and \$891,000 for Specialty Group	23,133,138	_	23,133,138	3,171,593	_	_	26,304,731
Due from affiliated entities	2,268,115	_	2,268,115	769,150	_	(769,150)	2,268,115
Inventories	574,503	_	574,503	26,329	_	_	600,832
Other current assets	4,722,243	_	4,722,243	1,192,236	1,260,241	_	7,174,720
Total current assets	35,880,724	-	35,880,724	5,159,308	2,477,028	(769,150)	42,747,910
Assets whose use is limited:							
Investments	_	_	_	728,805	26,623,850	_	27,352,655
Funds held in trust by others	67,820,517	_	67,820,517	_	_	_	67,820,517
Interest in Foundation	_	75,658,862	75,658,862	_	_	_	75,658,862
	67,820,517	75,658,862	143,479,379	728,805	26,623,850	-	170,832,034
Property, plant and equipment:							
Buildings	112,786,497	_	112,786,497	2,204,148	_	_	114,990,645
Furniture and equipment	58,343,672	_	58,343,672	1,130,155	105,269	_	59,579,096
Construction in progress	10,845,652	_	10,845,652	66,950	_	_	10,912,602
	181,975,821	_	181,975,821	3,401,253	105,269	_	185,482,343
Less accumulated depreciation	(84,352,993)	_	(84,352,993)	(1,558,274)	(80,822)	_	(85,992,089)
	97,622,828	_	97,622,828	1,842,979	24,447	_	99,490,254
Other assets:							
Bond issuance costs	681,696	_	681,696	_	_	_	681,696
Ground lease	2,445,974	_	2,445,974	_	_	_	2,445,974
Other	23,040,653	_	23,040,653	851,173	5,493	_	23,897,319
	26,168,323	_	26,168,323	851,173	5,493	_	27,024,989
Total assets	\$ 227,492,392	\$ 75,658,862	#############	\$ 8,582,265	\$29,130,818	\$ (769,150)	#######################################

Consolidating Balance Sheets (continued)

				Connecticut			
	Connecticut	Effect of		Children's			
	Children's	Adoption of		Specialty	Children's		Total
	Medical Center	ASC 958-20	Total	Group	Fund	Eliminations	Consolidated
Liabilities and net assets							
Current liabilities:							
Current portion of bonds payable	\$ 1,050,000	\$ -	, , , , , , , , ,	\$ -	\$ -	\$ -	\$ 1,050,000
Current portion of notes payable	2,137,718	_	2,137,718	26,310	_	_	2,164,028
Accounts payable and accrued expenses	23,190,193	_	23,190,193	3,504,149	240,146	_	26,934,488
Accrued wages	8,583,461	_	8,583,461	3,611,670	_	_	12,195,131
Due to third parties	1,261,943	_	1,261,943	1,204,000	_	_	2,465,943
Due to affiliated entities	987,542	_	987,542	2,868,452	_	(769,150)	3,086,844
Accrued interest payable and other current liabilities	217,358	_	217,358	260,731	_	_	478,089
Total current liabilities	37,428,215	=	37,428,215	11,475,312	240,146	(769,150)	48,374,523
Bonds payable, less current portion	40,530,000	-	40,530,000	_	_	-	40,530,000
Notes payable, less current portion	1,845,978	-	1,845,978	113,940	_	-	1,959,918
Accrued pension liability	18,776,699	-	18,776,699	-	_	-	18,776,699
Other long term liabilities	17,559,945	_	17,559,945	3,481,034	_	_	21,040,979
Total liabilities	116,140,837	_	116,140,837	15,070,286	240,146	(769,150)	130,682,119
Net assets:							
Unrestricted	28,400,854	54,517,145	82,917,999	(6,488,021)	27,593,383	_	104,023,361
Temporarily restricted	15,130,184	4,813,136	19,943,320	_	1,297,289	_	21,240,609
Permanently restricted	67,820,517	16,328,581	84,149,098	_	_	_	84,149,098
Total net assets	111,351,555	75,658,862	187,010,417	(6,488,021)	28,890,672	_	209,413,068
Total net assets and liabilities	\$ 227,492,392	\$ 75,658,862	\$ 303,151,254	\$ 8,582,265	\$ 29,130,818	\$ (769,150)	\$ 340,095,187

Consolidating Statements of Operations and Changes in Net Assets

Year Ended September 30, 2012

	Connecticut Children's Medical	Effect of Adoption of ASC 958-20	Total	Connecticut Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated
Revenues:	•						_
Net patient service revenue	\$ 231,197,635	\$ -	\$ 231,197,635	\$ 46,407,120	\$ -	\$ -	\$ 277,604,755
Provision for bad debt	(4,548,780)	_	(4,548,780)	(1,326,259)	_	_	(5,875,039)
Net patient service revenue less provision for bad debts	226,648,855	_	226,648,855	45,080,861	_	_	271,729,716
Other revenues	7,522,637	_	7,522,637	7,405,595	1,489,701	(1,679,073)	14,738,860
Net assets released from restrictions	12,253,353	_	12,253,353	_	2,130,450	_	14,383,803
	246,424,845	_	246,424,845	52,486,456	3,620,151	(1,679,073)	300,852,379
Expenses:							
Salaries	98,472,704	_	98,472,704	45,345,416	1,360,821	6,637,606	151,816,547
Benefits	26,242,270	=	26,242,270	8,339,907	444,155	1,526,650	36,552,982
Supplies and other	111,079,149	_	111,079,149	12,667,842	3,325,426	(9,843,329)	117,229,088
Depreciation and amortization	10,408,276	_	10,408,276	672,653	13,250	_	11,094,179
Interest	910,866	=	910,866	29,726	=	_	940,592
	247,113,265	=	247,113,265	67,055,544	5,143,652	(1,679,073)	317,633,388
Loss from operations	(688,420)	-	(688,420)	(14,569,088)	(1,523,501)	-	(16,781,009)
Other income:							
Gain from investments	14,932,864	_	14,932,864	28,493	1,673,372	_	16,634,729
Income from trusts held by others	2,826,208	_	2,826,208	_	_	_	2,826,208
Change in equity interest in net assets of the Foundation	_	1,922,646	1,922,646	_	_	_	1,922,646
Other	(84,403)	_	(84,403)	_	_	-	(84,403)
	17,674,669	1,922,646	19,597,315	28,493	1,673,372	_	21,299,180
Excess (deficiency) of revenues over expenses	16,986,249	1,922,646	18,908,895	(14,540,595)	149,871	-	4,518,171

Continued on next page.

Consolidating Statements of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2012

	Connecticut	Effect of		Connecticut Children's			
	Children's	Adoption of		Specialty	Children's		Total
	Medical	ASC 958-20	Total	Group	Fund	Eliminations	Consolidated
Unrestricted net assets:							
Excess (deficiency) of revenues over expenses	\$ 16,986,249	\$ 1,922,646	\$ 18,908,895	\$ (14,540,595)	\$ 149,871	\$ -	\$ 4,518,171
Transfer from affiliated organizations, net	(15,699,924)	_	(15,699,924)	15,699,924	_	_	_
Net unrealized gain on investments	_	_	_	104,960	3,582,091	_	3,687,051
Net assets released from restrictions for capital	3,078,733	_	3,078,733	_	_	_	3,078,733
Change in funded status of pension and post-retirement plans	(1,377,255)	_	(1,377,255)	_	_	_	(1,377,255)
Adoption of new accounting principle	_	_	_	_	_	_	_
Change in equity interest in the net assets of the Foundation	_	8,856,142	8,856,142	_	_	_	8,856,142
Increase in unrestricted net assets	2,987,803	10,778,788	13,766,591	1,264,289	3,731,962	-	18,762,842
Temporarily restricted net assets:							
Transfer from affiliated organization	4,251,318	_	4,251,318	_	_	_	4,251,318
Net assets released from restrictions for operations	(12,253,353)	_	(12,253,353)	_	(2,130,450)	_	(14,383,803)
Net assets released from restrictions for capital	(3,078,733)	_	(3,078,733)	_	_	_	(3,078,733)
Bequests, gifts and grants	10,489,646	_	10,489,646	_	2,440,222	_	12,929,868
Change in equity interest in the net assets of the Foundation		961,200	961,200	-	=	=	961,200
Increase in temporarily restricted net assets	(591,122)	961,200	370,078	_	309,772	_	679,850
Permanently restricted net assets:	_	_	_	_	_	_	
Change in funds held by others	7,884,564	_	7,884,564	_	_	_	7,884,564
Change in equity interest in the net assets of the Foundation	_	306,275	306,275	_	_	_	306,275
Increase in permanently restricted net assets	7,884,564	306,275	8,190,839	_	_	_	8,190,839
Increase in net assets	10,281,245	12,046,263	22,327,508	1,264,289	4,041,734		27,633,531
Net assets at beginning of year	111,351,555	75,658,862	187,010,417	(6,488,021)	28,890,672	_	209,413,068
Net assets at end of year	\$ 121,632,800	\$ 87,705,125	\$ 209,337,925	\$ (5,223,732)	\$ 32,932,406	\$ -	\$ 237,046,599

Consolidating Statements of Operations and Changes in Net Assets

Year Ended September 30, 2011

	Connecticut								
	Connecticut Children's Medical Center	Effect of Adoption of ASC 958-20	Total	Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated		
Revenues:				•					
Net patient service revenue	\$ 202,447,507	\$ -	\$ 202,447,507	\$ 42,064,861	\$ -	\$ -	\$ 244,512,368		
Provision for bad debt	(1,147,790)	_	(1,147,790)	(1,218,040)	_	_	(2,365,830)		
Net patient service revenue less provision for bad debts	201,299,717	_	201,299,717	40,846,821	_	-	242,146,538		
Other revenues	3,247,061	_	3,247,061	7,960,562	1,690,861	(1,495,959)	11,402,525		
Net assets released from restrictions	12,747,922	_	12,747,922	_	1,440,575	_	14,188,497		
	217,294,700	=	217,294,700	48,807,383	3,131,436	(1,495,959)	267,737,560		
Expenses:									
Salaries	89,812,090	_	89,812,090	38,637,666	1,074,296	4,411,596	133,935,648		
Benefits	25,506,983	_	25,506,983	7,776,019	361,859	1,014,666	34,659,527		
Supplies and other	81,830,350	_	81,830,350	11,622,168	2,990,846	(6,922,221)	89,521,143		
Bad debts (non-patient)	=	_	_	101,818	_	_	101,818		
Depreciation and amortization	10,397,231	_	10,397,231	592,738	10,615	_	11,000,584		
Interest	1,187,248	_	1,187,248	44,176	_	_	1,231,424		
Loss on retirement of debt	2,576,263	_	2,576,263	_	_	_	2,576,263		
	211,310,165	_	211,310,165	58,774,585	4,437,616	(1,495,959)	273,026,407		
Gain (loss) from operations	5,984,535	-	5,984,535	(9,967,202)	(1,306,180)	_	(5,288,847)		
Other income:									
Gain from investments	4,377,851	_	4,377,851	37,698	1,873,195	-	6,288,744		
Income from trusts held by others	2,624,198	_	2,624,198	_	_	-	2,624,198		
Change in equity interest in net assets of the Foundation	=	2,798,727	2,798,727	_	_	_	2,798,727		
Other	(1,857)		(1,857)	(466)		_	(2,323)		
	7,000,192	2,798,727	9,798,919	37,232	1,873,195	_	11,709,346		
Excess (deficiency) of revenues over expenses	12,984,727	2,798,727	15,783,454	(9,929,970)	567,015	_	6,420,499		

Continued on next page.

Consolidating Statements of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2011

	Connecticut Children's Medical	Effect of Adoption of ASC 958-20	Total	Connecticut Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated
Unrestricted net assets:							
Excess of revenues over expenses	\$ 12,984,727	\$ 2,798,727	\$ 15,783,454	\$ (9,929,970)	\$ 567,015	\$ -	\$ 6,420,499
Transfer from affiliated organizations, net	(7,087,745)	_	(7,087,745)	7,087,745	_	_	_
Unrealized gain on investments	_	_	_	(52,448)	(2,510,301)	_	(2,562,749)
Net assets released from restrictions for capital	1,064,801	_	1,064,801	_	_	_	1,064,801
Change in funded status of pension and post-retirement plans	(4,399,884)	_	(4,399,884)	_	_	_	(4,399,884)
Transfer to temporarily restricted funds	(250,000)	_	(250,000)	_	_	_	(250,000)
Change in market value of swap	=	=	=	=	=	=	=
Change in equity interest in the net assets of the Foundation		(3,108,995)	(3,108,995)	_	_	_	(3,108,995)
Increase in unrestricted net assets	2,311,899	(310,268)	2,001,631	(2,894,673)	(1,943,286)	-	(2,836,328)
Temporarily restricted net assets:							
Transfer from affiliated organization	5,728,363	_	5,728,363	_	_	_	5,728,363
Net assets released from restrictions for operations	(12,614,538)	_	(12,614,538)	_	(1,440,575)	_	(14,055,113)
Net assets released from restrictions for capital	(1,064,801)	_	(1,064,801)	_	_	_	(1,064,801)
Bequests, gifts and grants	10,411,373	_	10,411,373	_	1,032,000	_	11,443,373
Transfers from unrestricted funds	250,000	_	250,000	_	_	_	250,000
Change in equity interest in the net assets of the Foundation	_	(50,578)	(50,578)	_	_	_	(50,578)
Increase in temporarily restricted net assets	2,710,397	(50,578)	2,659,819	-	(408,575)	-	2,251,244
Permanently restricted net assets:							
Change in funds held by others	(2,200,911)	_	(2,200,911)	_	_	_	(2,200,911)
Assets released from restrictions by trustees	(133,384)	=	(133,384)	=	=	=	(133,384)
Change in equity interest in the net assets of the Foundation	_	461,274	461,274	_	_	_	461,274
Increase in permanently restricted net assets	(2,334,295)	461,274	(1,873,021)	=	=	=	(1,873,021)
Increase in net assets	2,688,001	100,428	2,788,429	(2,894,673)	(2,351,861)		(2,458,105)
Net assets at beginning of year	108,663,554	75,558,434	184,221,988	(3,593,348)	31,242,533	=	211,871,173
Net assets at end of year	\$ 111,351,555	\$ 75,658,862	\$ 187,010,417	\$ (6,488,021)	\$ 28,890,672	\$ -	\$ 209,413,068

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